



Tecumseh, Michigan

FINANCIAL STATEMENTS

For The Year Ended June 30, 2006



REHMANN ROBSON

Certified Public Accountants

TECUMSEH PUBLIC SCHOOLS

For the Year Ended June 30, 2006

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TECUMSEH PUBLIC SCHOOLS

For the Year Ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

August 21, 2006

Board of Education
Tecumseh Public Schools
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tecumseh Public Schools, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tecumseh Public Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

This section of Tecumseh Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tecumseh Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund; and all other funds presented as nonmajor funds (Special Revenue, Debt Service and Capital Projects). The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Other supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – fund Financial Statements

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in the reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in the funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006.

TABLE I	6/30/06 <u>Governmental Activities</u>	6/30/05 <u>Governmental Activities</u>
Assets		
Current and other assets	\$ 7,023,309	\$ 7,467,281
Capital assets – Net of accumulated depreciation	<u>60,830,901</u>	<u>62,359,168</u>
Total assets	<u>67,854,210</u>	<u>69,826,449</u>
Liabilities		
Accounts payable and accrued liabilities	3,952,943	4,836,729
Unearned revenue	17,172	6,393
Long-term debt:		
Due within one year	2,529,416	2,138,667
Due in more than one year	<u>55,635,708</u>	<u>56,520,567</u>
Total liabilities	<u>63,502,356</u>	<u>63,502,356</u>
Net Assets		
Invested in capital assets, net of related debt	4,509,465	4,410,915
Restricted for capital projects and other purposes	629,664	667,547
Unrestricted	<u>579,842</u>	<u>1,245,631</u>
Total net assets	<u>\$ 5,718,971</u>	<u>\$ 6,324,093</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$5,718,971 at June 30, 2006. Capital assets, net of related debt totaling \$4,509,465 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$579,842 was unrestricted.

The \$579,842 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2006.

TABLE 2	6/30/2006	6/30/2005
Revenue	Governmental	Governmental
	Activites	Activites
Program revenue:		
Charges for services	\$ 973,199	\$ 922,942
Operating grants and contributions	2,611,703	2,315,426
General revenue:		
Property taxes	6,826,441	6,499,090
Unrestricted state aid	20,057,623	19,660,459
Other	160,365	199,012
Total revenue	<u>30,629,331</u>	<u>29,596,929</u>
Function/Program expenses		
Instruction	15,534,416	15,145,380
Supporting services	8,251,422	8,448,030
Community service	245,141	266,114
Athletics	690,951	480,909
Food service	847,376	874,224
Transfers to other districts	48,979	85,445
Interest on long-term debt	2,936,016	1,776,525
Unallocated depreciation	1,736,612	1,568,184
Total expenses	<u>30,290,913</u>	<u>28,644,811</u>
Increase in net assets	<u>\$ 338,418</u>	<u>\$ 952,118</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$30,290,913. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining “public benefit” portion of our governmental activities with \$6,826,441 in taxes, \$20,057,623 in State Foundation Allowance, and with our other revenues, \$160,365, such as interest and general entitlements.

The School District experienced an increase in net assets of \$338,418. The key reason for the change in net assets is the increase in revenues.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,129,373 which is an increase of \$607,838 from last year's combined fund balance. The primary reason for the increase is due to no settlements on any of the expired bargaining agreements at June 30, 2006. In the General Fund, our principal operating fund, the fund balance increased \$747,698 to \$2,361,680 which is more than the budgeted decrease of \$249,001. The General Fund fund balance at year end is 10% of total expenditures and is at the minimum level (10-15%) desirable for school districts to maintain in reserve.

- Our Special Revenue Funds showed an overall decrease of \$88,035, due to anticipated expenditures for the softball field project charged to the Athletic fund. The Food Service fund showed an increase to fund balance, due to increased revenue and increased participation in purchasing through the State of Michigan commodity program.
- Combined, the Debt Service Funds showed a decrease in fund balance of \$101,977. Millage rates will remain at 7.2000 mills until such time that all loans due the School Bond Loan Program are repaid. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The combined Capital Projects Funds increased due to the Board of Education approval of Strategic Finance Plan 1.2 to transfer in from the General Fund \$250,000 for school improvements.

General Fund Budgetary Highlights

Over the course of the year, the school District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased \$909,734, primarily due to the School District budgeted \$6,700 for a foundation allowance and the State came through with \$6,875 along with increased funding from the ISD for special education.
- Budgeted expenditures were increased due to preliminary estimates for contractual obligations.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006 the School District had \$69,817,783 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

	<u>2006</u>
Land	\$ 1,590,511
Buildings and improvements	68,735,017
Vehicles	286,449
Furniture and equipment	<u>796,317</u>
Total capital assets	71,408,294
Less accumulated depreciation	<u>10,577,393</u>
Net capital assets	<u>\$60,830,901</u>

Debt

At the end of this year, the School District had \$52,231,723 in bonds outstanding versus \$54,370,390 in the previous year – a change of \$2,138,667. Those bonds consisted of the following:

	<u>1998</u>	<u>2000</u>	<u>1998 Durant</u>	<u>2005</u>
<u>General Obligation Bonds</u>	\$ 3,175,000	\$2,700,000	\$ 166,723	\$46,190,000

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$52,231,723 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences and retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic factors and Next Year's Budgets and Rates

For the 2006/2007 school year the non-homestead millage will remain at 18.0000 mills. Levying the full amount on these properties is crucial, especially when the State foundation and categorical monies are constantly under scrutiny.

One of the most important factors affecting the budget is our student count. Unfortunately, it is difficult for School District's to know exactly how many students will show up and be counted on those two crucial pupil count days (September and February) of each school year. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

The 2006/2007 budget was adopted based on the blended student count (75% of September 2006 students and 25% of February 2006 students) or 3,456 and \$7,075 student foundation allowance. Unfortunately, with Lenawee County's unemployment rate over 7%, and the State pushing 8%, student enrollment may be at risk for the School District for the first time in many years. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. The adopted budget and subsequent amendments must be posted on the district website, a new State requirement for 2006/2007.

Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Approximately 80 percent of total General Fund revenues are from the foundation allowance.

The School District is mandated by Michigan State statute to contribute to the Michigan Public School Employees Retirement System (MPERS) at a rate established by the State of Michigan. The rate set for 2006/2007 is 17.74% of our annual covered payroll (2005/2006 it was 16.34%). Healthcare costs continue to challenge the School District's budget. For 2006/2007, healthcare costs will be over 3.0 million dollars.

The administration will continue to look at cost containment initiatives for 2006/2007 and for the future of the School District, in response to the State's financial crisis being passed down to local school districts.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 212 N. Ottawa Street, Tecumseh, Michigan 49286.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,288,464
Receivables	4,323,137
Prepaid items and other assets	411,708
Capital assets, net	<u>60,830,901</u>
Total assets	<u>67,854,210</u>
Liabilities	
Accounts payable and accrued liabilities	3,952,943
Unearned revenue	17,172
Long-term debt:	
Due within one year	2,529,416
Due in more than one year	<u>55,635,708</u>
Total liabilities	<u>62,135,239</u>
Net assets	
Invested in capital assets, net of related debt	4,509,465
Restricted for capital projects and other purposes	629,664
Unrestricted	<u>579,842</u>
Total net assets	<u><u>\$ 5,718,971</u></u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS

Statement of Activities For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 15,534,416	\$ 5,775	\$ 2,310,347	\$ (13,218,294)
Supporting services	8,251,422	58,228	52,421	(8,140,773)
Community service	245,141	78,497	-	(166,644)
Athletics	690,951	106,667	11,754	(572,530)
Food service	847,376	649,025	237,181	38,830
Transfers to other districts	48,979	-	-	(48,979)
Interest on long-term debt	2,936,016	75,007	-	(2,861,009)
Unallocated depreciation	1,736,612	-	-	(1,736,612)
Total	<u>\$ 30,290,913</u>	<u>\$ 973,199</u>	<u>\$ 2,611,703</u>	<u>(26,706,011)</u>
General revenues:				
Property taxes				6,826,441
Unrestricted state aid				20,057,623
Grants and contributions not restricted to specific programs				87,860
Unrestricted investment earnings				<u>72,505</u>
Total general revenues				<u>27,044,429</u>
Change in net assets				338,418
Net assets, beginning of year, as restated				<u>5,380,553</u>
Net assets, end of year				<u>\$ 5,718,971</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS

Balance Sheet Governmental Funds June 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 1,522,410	\$ 766,054	\$ 2,288,464
Accounts receivable	31,212	2,387	33,599
Due from other governments	4,122,815	166,723	4,289,538
Inventory	855	19,228	20,083
	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 5,677,292</u>	<u>\$ 954,392</u>	<u>\$ 6,631,684</u>
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 147,495	\$ 4	\$ 147,499
Salaries and retirement payable	1,544,582	11,573	1,556,155
Due to other governments	72,242	-	72,242
State aid note payable	1,486,048	-	1,486,048
Deferred revenue	65,245	175,122	240,367
	<hr/>	<hr/>	<hr/>
Total liabilities	3,315,612	186,699	3,502,311
	<hr/>	<hr/>	<hr/>
Fund balances			
Reserved for:			
Inventory	855	19,228	20,083
Unreserved:			
Designated for subsequent year's expenditures	99,426	-	99,426
Undesignated	2,261,399	-	2,261,399
Undesignated, reported in nonmajor:			
Special revenue funds	-	181,444	181,444
Debt service funds	-	138,029	138,029
Capital project funds	-	428,992	428,992
	<hr/>	<hr/>	<hr/>
Total fund balances	2,361,680	767,693	3,129,373
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,677,292</u>	<u>\$ 954,392</u>	<u>\$ 6,631,684</u>
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balances - total governmental funds	\$ 3,129,373
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	71,408,294
Deduct: accumulated depreciation	(10,577,393)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred revenue for the Durant receivable from MDE	223,195
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(56,751,372)
Add: unamortized bond issuance costs	391,625
Add: unamortized loss on refunding	2,709,456
Deduct: unamortized bond premium	(2,837,868)
Deduct: accrued interest on bonds payable	(690,999)
Deduct: compensated absences	(135,356)
Deduct: retirement incentives payable	(1,149,984)
Net assets of governmental activities	\$ <u>5,718,971</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Revenue			
Local sources	\$ 3,357,173	\$ 5,242,615	\$ 8,599,788
State sources	21,507,492	65,863	21,573,355
Federal sources	309,863	190,674	500,537
	<hr/>	<hr/>	<hr/>
Total revenue	25,174,528	5,499,152	30,673,680
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Education:			
Instruction	15,331,274	-	15,331,274
Supporting services	8,186,510	-	8,186,510
Transfers to other districts	48,979	-	48,979
Athletics	-	690,951	690,951
Food service	-	847,645	847,645
Community services	40,674	204,467	245,141
Capital outlay	-	256,978	256,978
Debt service:			
Principal repayment	-	2,138,667	2,138,667
Interest and fiscal charges	-	2,806,912	2,806,912
	<hr/>	<hr/>	<hr/>
Total expenditures	23,607,437	6,945,620	30,553,057
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	1,567,091	(1,446,468)	120,623
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Proceeds from School Bond Loan Fund	-	487,215	487,215
Transfers in	31,362	850,755	882,117
Transfers out	(850,755)	(31,362)	(882,117)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(819,393)	1,306,608	487,215
	<hr/>	<hr/>	<hr/>
Change in fund balances	747,698	(139,860)	607,838
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	1,613,982	907,553	2,521,535
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 2,361,680</u>	<u>\$ 767,693</u>	<u>\$ 3,129,373</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$	607,838
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		208,345
Deduct: depreciation expense		(1,560,899)

Governmental funds report proceeds from the sale of capital assets as other financing sources. However, in the statement of activities, the proceeds are netted against the net remaining book value of capital asset disposals and reported as either a gain on sale of capital assets or as an increase to expenses.

Deduct: net book value of capital asset disposals		(175,713)
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The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term Durant receivables		(41,903)
Deduct: increase in unavailable accounts receivable		(2,446)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		2,138,667
Deduct: proceeds from School Bond Loan Fund		(487,215)
Deduct: amortization of bond refunding loss		(112,894)
Add: amortization of bond premium		118,244
Deduct: amortization of bond issuance costs		(16,318)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds		(118,136)
Deduct: increase in the accrual for compensated absences		(12,708)
Deduct: increase in the accrual for retirement incentives		(206,444)

Change in net assets of governmental activities	\$	338,418
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The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources:				
Property taxes	\$ 2,416,932	\$ 2,531,641	\$ 2,564,889	\$ 33,248
ISD special education tax	355,000	601,564	631,272	29,708
Tuition	27,000	1,875	5,775	3,900
Earnings on investments and deposits	7,000	73,016	72,505	(511)
Other local revenues	100,780	63,818	82,732	18,914
Total revenue from local sources	<u>2,906,712</u>	<u>3,271,914</u>	<u>3,357,173</u>	<u>85,259</u>
State sources:				
State school aid - unrestricted	19,825,601	20,010,618	20,057,623	47,005
At risk	189,362	182,702	182,668	(34)
Special education	978,088	1,232,720	1,238,965	6,245
Durant settlement	-	28,236	28,236	-
Total revenue from state sources	<u>20,993,051</u>	<u>21,454,276</u>	<u>21,507,492</u>	<u>53,216</u>
Federal sources	<u>229,295</u>	<u>312,602</u>	<u>309,863</u>	<u>(2,739)</u>
Total revenue	<u>24,129,058</u>	<u>25,038,792</u>	<u>25,174,528</u>	<u>135,736</u>
Expenditures				
Instruction:				
Basic Programs:				
Elementary	4,654,206	4,692,023	4,600,621	(91,402)
Middle/Junior High	3,917,872	3,938,513	3,728,433	(210,080)
High School	3,817,967	3,904,034	3,776,356	(127,678)
Added Needs:				
Special Education	2,456,302	2,749,548	2,607,252	(142,296)
At Risk	409,637	407,017	422,837	15,820
Adult Education	196,834	196,834	195,775	(1,059)
Total instruction	<u>15,452,818</u>	<u>15,887,969</u>	<u>15,331,274</u>	<u>(556,695)</u>

continued...

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual (Continued)
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Supporting Services:				
Pupil services:				
Guidance services	\$ 463,362	\$ 521,795	\$ 497,626	\$ (24,169)
Health services	-	54,612	44,139	(10,473)
Other pupil services	97,965	122,878	109,157	(13,721)
Instructional staff:				
Improvement of instruction	140,792	117,201	101,251	(15,950)
Library/media	252,789	257,864	272,396	14,532
Supervision and direction	199,789	72,699	73,134	435
Technology assisted instruction	60,136	60,136	64,110	3,974
General administration:				
Board of Education	305,224	295,224	314,174	18,950
Executive administration	282,559	292,559	254,647	(37,912)
School administration	1,443,452	1,448,827	1,376,945	(71,882)
Central services:				
Pupil accounting	500	752	752	-
Human resources	139,027	139,027	129,690	(9,337)
Technology	666,139	724,279	722,336	(1,943)
Business services	529,206	494,670	488,975	(5,695)
Operations and maintenance	2,727,575	2,782,662	2,681,489	(101,173)
Transportation	1,010,130	998,107	995,554	(2,553)
Other supporting services	24,361	60,135	60,135	-
Total supporting services	<u>8,343,006</u>	<u>8,443,427</u>	<u>8,186,510</u>	<u>(256,917)</u>
Community services	<u>3,000</u>	<u>43,569</u>	<u>40,674</u>	<u>(2,895)</u>
Transfers to other districts	<u>60,000</u>	<u>59,367</u>	<u>48,979</u>	<u>(10,388)</u>
Total expenditures	<u>23,858,824</u>	<u>24,434,332</u>	<u>23,607,437</u>	<u>(826,895)</u>
Revenue over expenditures	<u>270,234</u>	<u>604,460</u>	<u>1,567,091</u>	<u>962,631</u>

continued...

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Other financing sources (uses)				
Transfers in	\$ 36,123	\$ 36,123	\$ 31,362	\$ (4,761)
Transfers out	<u>(555,359)</u>	<u>(889,584)</u>	<u>(850,755)</u>	<u>38,829</u>
Total other financing sources (uses)	<u>(519,236)</u>	<u>(853,461)</u>	<u>(819,393)</u>	<u>34,068</u>
Change in fund balance	(249,002)	(249,001)	747,698	996,699
Fund balance, beginning of year	<u>1,613,982</u>	<u>1,613,982</u>	<u>1,613,982</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,364,980</u></u>	<u><u>\$ 1,364,981</u></u>	<u><u>\$ 2,361,680</u></u>	<u><u>\$ 996,699</u></u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Fiduciary Net Assets
All Fiduciary Funds
June 30, 2006

	Private Purpose Trust Funds	Agency Fund
	<hr/>	<hr/>
Assets		
Cash and cash equivalents	\$ 106,774	<u><u>\$ 247,723</u></u>
 Liabilities		
Due to student groups and activities	<hr/> -	<u><u>\$ 247,723</u></u>
 Net assets		
Unrestricted	<u><u>\$ 106,774</u></u>	

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2006

Revenue

Local sources:

Earnings on investments	\$ 3,403
Contributions	<u>1,000</u>

Total revenue	4,403
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Expenses

Scholarships	<u>999</u>
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Change in net assets	3,404
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Net assets, beginning of year	<u>103,370</u>
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Net assets, end of year	<u><u>\$ 106,774</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Tecumseh Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for the financial resources to be used for the acquisition or construction of major capital facilities improvements.

The *private purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2006.

3. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

<u>Assets</u>	<u>Years</u>
Buildings	45
Vehicles	5-10
Equipment	5-20

5. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

Budget to actual comparisons for the General Fund are presented in the fund financial statements at the legal level of budgetary control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Statutory Authority

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 2,288,464
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Statement of Fiduciary Net Assets:

Private Purpose Trust Fund:	
Cash and cash equivalents	106,774

Agency Fund:	
Cash and cash equivalents	<u>247,723</u>

\$ 2,642,961

These balances are reflected in the notes as follows:

Bank deposits	\$ 2,642,147
Cash on hand	<u>814</u>

\$ 2,642,961

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

State statutes authorize the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$2,717,236 of the District's bank balance of \$2,917,236 was exposed to custodial credit risk because it was uninsured and uncollateralized.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ 31,212	\$ 2,387	\$ 33,599	\$ -
Intergovernmental	4,066,343	-	4,066,343	-
Durant settlement	<u>56,472</u>	<u>166,723</u>	<u>223,195</u>	<u>180,664</u>
	<u>\$ 4,154,027</u>	<u>\$ 169,110</u>	<u>\$ 4,323,137</u>	<u>\$ 180,664</u>

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 1,590,511	\$ -	\$ -	\$ 1,590,511
Capital assets being depreciated:				
Buildings and improvements	68,973,672	208,345	447,000	68,735,017
Vehicles	328,249	-	41,800	286,449
Furniture and equipment	<u>796,317</u>	<u>-</u>	<u>-</u>	<u>796,317</u>
Total capital assets being depreciated	<u>70,098,238</u>	<u>208,345</u>	<u>488,800</u>	<u>69,817,783</u>
Less accumulated depreciation for:				
Building and improvements	8,750,133	1,478,997	271,287	9,957,843
Vehicles	189,221	25,694	41,800	173,115
Equipment	<u>390,227</u>	<u>56,208</u>	<u>-</u>	<u>446,435</u>
Total accumulated depreciation	<u>9,329,581</u>	<u>1,560,899</u>	<u>313,087</u>	<u>10,577,393</u>
Total capital assets being depreciated, net	<u>60,768,657</u>	<u>(1,352,554)</u>	<u>175,713</u>	<u>59,240,390</u>
Governmental activities capital assets, net	<u>\$62,359,168</u>	<u>\$(1,352,554)</u>	<u>\$ 175,713</u>	<u>\$60,830,901</u>

Depreciation expense of \$1,560,899 was charged to the function "unallocated depreciation", and was not allocated to the other functions. In addition, the loss on disposal of capital assets of \$175,713 was charged to the function "unallocated depreciation."

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 147,495	\$ 4	\$ 147,499
Salaries and retirement payable	1,544,582	11,573	1,556,155
Due to other governments	72,242	-	72,242
State aid note payable	<u>1,486,048</u>	<u>-</u>	<u>1,486,048</u>
	<u>\$3,250,367</u>	<u>\$ 11,577</u>	<u>3,261,944</u>
District-Wide Financial Statements:			
Accrued interest on long-term debt			<u>690,999</u>
			<u>\$ 3,952,943</u>

E. Interfund transfers

For the year ended June 30, 2006, interfund transfers consisted of \$31,362 in transfers from non-major governmental funds to the General Fund and \$850,755 in transfers from the General Fund to non-major governmental funds.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General obligation bonds	\$ 54,370,390	\$ -	\$ 2,138,667	\$ 52,231,723	\$ 2,214,315
Unamortized loss on bond refunding	(2,822,350)	-	(112,894)	(2,709,456)	-
Unamortized bond premium	2,956,112	-	118,244	2,837,868	-
School Bond Loan Fund	4,032,434	-	-	4,032,434	-
School Loan Revolving Fund	-	487,215	-	487,215	-
Retirement incentives	943,540	450,291	243,847	1,149,984	315,101
Compensated absences	122,648	12,708	-	135,356	-
	<u>\$ 59,602,774</u>	<u>\$ 950,214</u>	<u>\$ 2,387,864</u>	<u>\$ 58,165,124</u>	<u>\$ 2,529,416</u>

Bonds payable at June 30, 2006, are comprised of the following issues:

General Obligation Bonds:

\$33,000,000 1998 Building and Site Bonds, due in annual installments of \$1,550,000 to \$1,625,000 through May 1, 2008; interest at 4.30% to 5.00%	\$ 3,175,000
\$28,090,000 2000 Building and Site Bonds, due in annual installments of \$650,000 to \$725,000 through May 1, 2010; interest at 5.125% to 5.50%	2,700,000
\$46,190,000 2005 Refunding Bonds, due in annual installments of \$1,090,000 to \$3,070,000 through May 1, 2030; interest at 3.50% to 5.125%	46,190,000
* \$180,390 1998 Durant School Improvement Bonds, due in annual installments of \$14,315 to \$68,240 through 2013; interest at 4.8%	166,723

Total General Obligation Bonds Payable **\$ 52,231,723**

- * The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

In 2005, the District issued \$46,190,000 of general obligation bonds to provide resources to refund \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds. The proceeds of the refunding were placed in an irrevocable trust to make future debt payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. At year end, defeased bonds outstanding consisted of \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds.

Compensated absences and retirement incentives are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,214,315	\$ 2,558,598	\$ 4,772,913
2008	2,290,000	2,457,955	4,747,955
2009	2,370,714	2,354,052	4,724,766
2010	2,501,462	2,259,910	4,761,372
2011	2,678,240	2,156,716	4,834,956
2012-2016	14,786,992	8,642,102	23,429,094
2017-2021	15,290,000	4,849,940	20,139,940
2022-2026	5,680,000	1,990,940	7,670,940
2027-2031	4,420,000	563,751	4,983,751
Totals	<u>\$ 52,231,723</u>	<u>\$ 27,833,964</u>	<u>\$ 80,065,687</u>

The School Bond Loan Fund and the School Loan Revolving Fund represent amounts borrowed from the State of Michigan School loan programs to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes for the year ended June 30, 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
School Bond Loan Fund			
Beginning balance	\$ 4,032,434	\$ 82,708	\$ 4,115,142
Additions	-	168,074	168,074
Ending balance	<u>\$ 4,032,434</u>	<u>\$ 250,782</u>	<u>\$ 4,283,216</u>
School Loan Revolving Loan			
Beginning balance	\$ -	\$ -	\$ -
Additions	487,215	4,440	491,655
Ending balance	<u>\$ 487,215</u>	<u>\$ 4,440</u>	<u>\$ 491,655</u>

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

G. State Aid Anticipation Note

During the year, the District financed some of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2006, were comprised of the following:

General Fund:

State Aid Anticipation Notes, interest at 2.92% due 8/18/06:

Beginning balance	\$ 1,523,485
Additions	1,486,048
Reductions	<u>1,523,485</u>
Ending balance	<u>\$ 1,486,048</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 and are due on September 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

C. Defined benefit pension plan

Plan Description

The Tecumseh Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Tecumseh Public Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the Tecumseh Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$2,257,370, \$1,959,057 and \$1,906,677 respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

C. Bonded Construction Costs

The 2000 Capital Project Fund records capital projects activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

D. Restatements

The beginning net assets of governmental activities were decreased by \$943,540 to properly reflect liabilities incurred in prior years for retirement incentives.

* * * * *

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 199,033	\$ 138,029	\$ 428,992	\$ 766,054
Accounts receivable	2,387	-	-	2,387
Due from other governments	-	166,723	-	166,723
Inventory	19,228	-	-	19,228
	<u>19,228</u>	<u>-</u>	<u>-</u>	<u>19,228</u>
<u>TOTAL ASSETS</u>	<u>\$ 220,648</u>	<u>\$ 304,752</u>	<u>\$ 428,992</u>	<u>\$ 954,392</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 4	\$ -	\$ -	\$ 4
Salaries and retirement payable	11,573	-	-	11,573
Deferred revenue	8,399	166,723	-	175,122
	<u>8,399</u>	<u>166,723</u>	<u>-</u>	<u>175,122</u>
Total liabilities	<u>19,976</u>	<u>166,723</u>	<u>-</u>	<u>186,699</u>
Fund balances				
Reserved for:				
Inventory	19,228	-	-	19,228
Unreserved, undesignated	181,444	138,029	428,992	748,465
	<u>181,444</u>	<u>138,029</u>	<u>428,992</u>	<u>748,465</u>
Total fund balances	<u>200,672</u>	<u>138,029</u>	<u>428,992</u>	<u>767,693</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 220,648</u>	<u>\$ 304,752</u>	<u>\$ 428,992</u>	<u>\$ 954,392</u>

TECUMSEH PUBLIC SCHOOLS
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue	Debt Service	Capital Projects	Totals
Revenue				
Local sources	\$ 848,861	\$ 4,336,559	\$ 57,195	\$ 5,242,615
State sources	46,035	19,828	-	65,863
Federal sources	190,674	-	-	190,674
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	1,085,570	4,356,387	57,195	5,499,152
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures				
Current:				
Athletics	690,951	-	-	690,951
Food service	847,645	-	-	847,645
Community services	204,467	-	-	204,467
Capital outlay	-	-	256,978	256,978
Debt service:				
Principal repayment	-	2,138,667	-	2,138,667
Interest and fiscal charges	-	2,806,912	-	2,806,912
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,743,063	4,945,579	256,978	6,945,620
	<hr/>	<hr/>	<hr/>	<hr/>
Revenue under expenditures	(657,493)	(589,192)	(199,783)	(1,446,468)
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses)				
Proceeds from School Bond Loan Fund	-	487,215	-	487,215
Transfers in	600,755	-	250,000	850,755
Transfers out	(31,297)	-	(65)	(31,362)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	569,458	487,215	249,935	1,306,608
	<hr/>	<hr/>	<hr/>	<hr/>
Change in fund balances	(88,035)	(101,977)	50,152	(139,860)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	288,707	240,006	378,840	907,553
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 200,672</u>	<u>\$ 138,029</u>	<u>\$ 428,992</u>	<u>\$ 767,693</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2006

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 8,269	\$ 180,882	\$ 9,882	\$ 199,033
Accounts receivable	-	2,387	-	2,387
Inventory	-	19,228	-	19,228
	<u>-</u>	<u>19,228</u>	<u>-</u>	<u>19,228</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 8,269</u>	 <u>\$ 202,497</u>	 <u>\$ 9,882</u>	 <u>\$ 220,648</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 4	\$ -	\$ -	\$ 4
Salaries and retirement payable	5,453	2,346	3,774	11,573
Deferred revenue	-	8,399	-	8,399
	<u>-</u>	<u>8,399</u>	<u>-</u>	<u>8,399</u>
Total liabilities	<u>5,457</u>	<u>10,745</u>	<u>3,774</u>	<u>19,976</u>
 Fund balances				
Reserved for inventory	-	19,228	-	19,228
Unreserved, undesignated	2,812	172,524	6,108	181,444
	<u>2,812</u>	<u>172,524</u>	<u>6,108</u>	<u>181,444</u>
Total fund balances	<u>2,812</u>	<u>191,752</u>	<u>6,108</u>	<u>200,672</u>
 <u>TOTAL LIABILITIES AND FUND BALANCES</u>	 <u>\$ 8,269</u>	 <u>\$ 202,497</u>	 <u>\$ 9,882</u>	 <u>\$ 220,648</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Special Revenue Funds
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
Revenue				
Local sources	\$ 118,421	\$ 651,943	\$ 78,497	\$ 848,861
State sources	-	46,035	-	46,035
Federal sources	-	190,674	-	190,674
	<u>118,421</u>	<u>888,652</u>	<u>78,497</u>	<u>1,085,570</u>
Expenditures				
Athletics	690,951	-	-	690,951
Food service	-	847,645	-	847,645
Community services	-	-	204,467	204,467
	<u>690,951</u>	<u>847,645</u>	<u>204,467</u>	<u>1,743,063</u>
Revenue over (under) expenditures	<u>(572,530)</u>	<u>41,007</u>	<u>(125,970)</u>	<u>(657,493)</u>
Other financing sources (uses)				
Transfers in	475,111	-	125,644	600,755
Transfers out	-	(31,297)	-	(31,297)
	<u>475,111</u>	<u>(31,297)</u>	<u>125,644</u>	<u>569,458</u>
Change in fund balances	(97,419)	9,710	(326)	(88,035)
Fund balances, beginning of year	<u>100,231</u>	<u>182,042</u>	<u>6,434</u>	<u>288,707</u>
Fund balances, end of year	<u>\$ 2,812</u>	<u>\$ 191,752</u>	<u>\$ 6,108</u>	<u>\$ 200,672</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2006

	<u>Durant Debt</u>	<u>2005 Debt</u>	<u>2000 Debt</u>	<u>1998 Debt</u>	<u>Total</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ -	\$ 55,525	\$ 26,494	\$ 56,010	\$ 138,029
Due from other governments	<u>166,723</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,723</u>
<u>TOTAL ASSETS</u>	<u>\$ 166,723</u>	<u>\$ 55,525</u>	<u>\$ 26,494</u>	<u>\$ 56,010</u>	<u>\$ 304,752</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Deferred revenue	\$ 166,723	\$ -	\$ -	\$ -	\$ 166,723
Fund balances					
Unreserved, undesignated	<u>-</u>	<u>55,525</u>	<u>26,494</u>	<u>56,010</u>	<u>138,029</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 166,723</u>	<u>\$ 55,525</u>	<u>\$ 26,494</u>	<u>\$ 56,010</u>	<u>\$ 304,752</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Debt Service Funds
Combining Statement of Revenue, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2006

	Durant Debt	2005 Debt	2000 Debt	1998 Debt	Total
Revenue					
Local sources:					
Property taxes	\$ -	\$ 1,978,022	\$ 726,429	\$ 1,557,101	\$ 4,261,552
Interest revenue	-	10,312	20,533	41,294	72,139
Other revenue	-	2,868	-	-	2,868
State sources	19,828	-	-	-	19,828
Total revenue	19,828	1,991,202	746,962	1,598,395	4,356,387
Expenditures					
Debt Service:					
Principal	13,667	-	650,000	1,475,000	2,138,667
Interest	6,161	2,422,892	174,796	203,063	2,806,912
Total expenditures	19,828	2,422,892	824,796	1,678,063	4,945,579
Revenue under expenditures	-	(431,690)	(77,834)	(79,668)	(589,192)
Other financing sources					
Proceeds from School Bond Loan Fund	-	487,215	-	-	487,215
Change in fund balances	-	55,525	(77,834)	(79,668)	(101,977)
Fund balances, beginning of year	-	-	104,328	135,678	240,006
Fund balances, end of year	\$ -	\$ 55,525	\$ 26,494	\$ 56,010	\$ 138,029

TECUMSEH PUBLIC SCHOOLS
Nonmajor Capital Project Funds
Combining Balance Sheet
June 30, 2006

	<u>Capital Project</u>	<u>2000 Capital Project</u>	<u>Total</u>
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 428,992	\$ -	\$ 428,992
	<u>428,992</u>	<u>-</u>	<u>428,992</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund balances			
Unreserved, undesignated	428,992	-	428,992
	<u>428,992</u>	<u>-</u>	<u>428,992</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 428,992</u>	<u>\$ -</u>	<u>\$ 428,992</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Capital Project Funds
Combining Statement of Revenue, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2006

	Capital Project	2000 Capital Project	Total
Revenue			
Local sources:			
Interest revenue	\$ 11,986	\$ 209	\$ 12,195
Other revenue	45,000	-	45,000
	<hr/>	<hr/>	<hr/>
Total revenue	56,986	209	57,195
Expenditures			
Capital outlay	245,008	11,970	256,978
	<hr/>	<hr/>	<hr/>
Revenue under expenditures	(188,022)	(11,761)	(199,783)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers in	250,000	-	250,000
Transfers out	-	(65)	(65)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	250,000	(65)	249,935
	<hr/>	<hr/>	<hr/>
Change in fund balances	61,978	(11,826)	50,152
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	367,014	11,826	378,840
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ 428,992</u>	<u>\$ -</u>	<u>\$ 428,992</u>

TECUMSEH PUBLIC SCHOOLS
2000 Capital Project Fund
Balance Sheet
November 7, 2005

Assets

Cash and cash equivalents

\$ 8,770

Fund balances

Unreserved, undesignated

\$ 8,770

TECUMSEH PUBLIC SCHOOLS
2000 Capital Project Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
For the Five Year Period Ended November 7, 2005

Revenue

Local sources:

Interest revenue \$ 1,903,278

Other revenue 562,181

Total revenue 2,465,459

Expenditures

Capital outlay 30,546,689

Revenue under expenditures (28,081,230)

Other financing sources

Bond proceeds 28,090,000

Change in fund balance 8,770

Fund balance, beginning of year -

Fund balance, end of year \$ 8,770

SINGLE AUDIT

TECUMSEH PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Cash Current Year Receipts	Current Year Expenditures	Accrued Revenue, End of Year
U.S. DEPARTMENT OF AGRICULTURE							
Direct Program -							
Food Distribution:							
Entitlement commodities	10.550	33904	\$ 33,293	\$ -	\$ 40,450	\$ 40,450	\$ -
Bonus commodities	10.550	33904	-	-	7,813	7,813	-
					48,263	48,263	-
Passed-through Michigan Department of Education:							
School Breakfast	10.553	51970	1,574	-	1,574	1,574	-
School Breakfast	10.553	61970	13,097	-	13,097	13,097	-
					14,671	14,671	-
National School Lunch:							
Section 4	10.555	51950	5,602	-	5,602	5,602	-
Section 4	10.555	61950	38,892	-	38,892	38,892	-
Section 11	10.555	51960	11,220	-	11,220	11,220	-
Section 11	10.555	61960	72,027	-	72,026	72,026	-
					127,740	127,740	-
Total U.S. Department of Agriculture					190,674	190,674	-
U.S. DEPARTMENT OF EDUCATION							
Passed-through Lenawee Intermediate School District:							
Transition to Work	84.027	050590	2,700	-	2,700	2,700	-
Parental Information and Resource Centers - Year 3	84.310A	S310A020042	27,751	3,524	12,927	9,403	-
Parental Information and Resource Centers - Year 4	84.310A	S310A020042	32,500	-	19,224	26,899	7,675
				3,524	32,151	36,302	7,675
Passed-through Michigan Department of Education:							
2005-06 Title I, Part A	84.010	061530-0506	116,022	-	66,017	115,325	49,308
2004-05 Title I, Part A Carryover	84.010	051530-0506	19,694	-	19,694	19,694	-
2004-05 Title I, Part A	84.010	051530-0506	131,295	12,860	12,860	-	-
				12,860	98,571	135,019	49,308
Drug Free Schools & Communities	84.186	062860-0506	11,255	-	9,312	11,255	1,943
Drug Free Schools & Communities Carryover	84.186	042860-0405	5,366	5,000	5,000	-	-
Drug Free Schools & Communities	84.186	052860-0405	11,672	340	340	-	-
				5,340	14,652	11,255	1,943
2005-06 Title V Innovative Programs	84.298	060250-0506	1,399	-	-	1,399	1,399
2004-05 Title V Innovative Programs	84.298	050250-0405	2,087	19	19	-	-
				19	19	1,399	1,399
2005-06 Title II, Part D	84.318	064290-0506	2,164	-	-	2,164	2,164
2004-05 Title II, Part D	84.318	054290-0405	3,337	3,337	3,337	-	-
2003-04 Title II, Part D Carryover	84.318	044290-0405	3,750	3,750	3,750	-	-
				7,087	7,087	2,164	2,164
2004-05 Title II, Part A Carryover	84.367	050520-0506	28,787	-	28,787	28,787	-
2005-06 Title II, Part A	84.367	060520-0506	93,186	-	40,913	92,237	51,324
2004-05 Title II, Part A	84.367	050520-0405	93,645	15,439	15,439	-	-
				15,439	85,139	121,024	51,324
Total U.S. Department of Education				44,269	240,319	309,863	113,813
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE							
Passed-through MCSC: Homeland Security Grant				-	8,769	-	(8,769)
Total Federal Financial Assistance				\$ 44,269	\$ 439,762	\$ 500,537	\$ 105,044

- Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the MDE.
- The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
- The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.
- Expenditures include spoilage or pilferage.



REHMANN ROBSON

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 21, 2006

Board of Education
Tecumseh Public Schools
Tecumseh, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tecumseh Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tecumseh Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Tecumseh Public Schools in a separate letter dated August 21, 2006.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 21, 2006

Board of Education
Tecumseh Public Schools
Tecumseh, Michigan

Compliance

We have audited the compliance of **TECUMSEH PUBLIC SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Tecumseh Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting, compliance, and/or operating efficiency that we have reported to the management of Tecumseh Public Schools in a separate letter dated August 21, 2006.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

TECUMSEH PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010
84.367

Title I, Part A
Title II, Part A

Dollar threshold used to distinguish
between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

TECUMSEH PUBLIC SCHOOLS

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended June 30, 2006

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

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